

**AUDIT OF THE
LEWIS COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2006

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
LEWIS COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	5
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	7
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	9
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	11
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	13
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	15
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	17
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	19
NOTES TO FINANCIAL STATEMENTS	21
BUDGETARY COMPARISON SCHEDULES.....	33
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	37
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	39
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	41
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	45
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	46
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	48
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	51

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable Steve Applegate, Lewis County Judge/Executive
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lewis County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lewis County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lewis County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lewis County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
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Members of the Lewis County Fiscal Court
(Continued)

The county has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lewis County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2006 on our consideration of Lewis County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The Fiscal Court Should Invest Funds In An Interest-Bearing Account

Respectfully submitted,



Ross & Company, PLLC

Audit fieldwork completed-
July 28, 2006

LEWIS COUNTY OFFICIALS

Fiscal Year Ended June 30, 2006

Fiscal Court Members:

Steve Applegate	County Judge/Executive
Milt Stanfield	Magistrate
Todd Ruckel	Magistrate
Keith Chapman	Magistrate

Other Elected Officials:

Clayton G. Lykins, Jr.	County Attorney
Tim Underwood	Jailer
Shirley A. Hinton	County Clerk
Kathy Hardy	Circuit Court Clerk
William Lewis	Sheriff
Betty F. Ripato	Property Valuation Administrator
Tony Gaydos	Coroner

Appointed Personnel:

Kathy Dillow	County Treasurer
Greta May	Finance Officer

**LEWIS COUNTY
STATEMENT OF NET ASSETS-MODIFIED BASIS**

June 30, 2006

LEWIS COUNTY
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 218,832	\$ 7,481	\$ 226,313
Total Current Assets	218,832	7,481	226,313
Noncurrent Assets:			
Capital Assets-Net of Accumulated Depreciation			
Land	412,900		412,900
Buildings	6,749,893		6,749,893
Furniture and Office Equipment	9,771		9,771
Vehicles and Equipment	748,035		748,035
Infrastructure Assets-Net of Depreciation	1,462,491		1,462,491
Total Noncurrent Assets	9,383,090		9,383,090
Total Assets	9,601,922	7,481	9,609,403
LIABILITIES			
Current Liabilities:			
Financing Obligations	103,035		103,035
Revenue Bonds	180,000		180,000
Total Current Liabilities	283,035		283,035
Noncurrent Liabilities:			
Financing Obligations	1,141,500		1,141,500
Revenue Bonds	5,060,000		5,060,000
Total Noncurrent Liabilities	6,201,500		6,201,500
Total Liabilities	6,484,535		6,484,535
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,898,555		2,898,555
Unrestricted	218,832	7,481	226,313
Total Net Assets	\$ 3,117,387	\$ 7,481	\$ 3,124,868

The accompanying notes are an integral part of these financial statements.

**LEWIS COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH**

For The Fiscal Year Ended June 30, 2006

LEWIS COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For the Year Ended June 30, 2006

Functions/Programs	Program Revenue Received			Net (Expenses) Revenues and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary Government:						
Governmental Activities:						
General Government	\$1,218,752	\$	\$ 661,848	\$ (556,904)		\$ (556,904)
Protection to Persons and Property	911,584	435,876	88,551	(387,157)		(387,157)
General Health and Sanitation	1,034,047		931,116	(102,931)		(102,931)
Social Services	3,450			(3,450)		(3,450)
Recreation and Culture	9,710			(9,710)		(9,710)
Roads	1,071,122		1,711,264	640,142		640,142
Debt Service	814,064			(814,064)		(814,064)
Total Government Activities	5,062,729	435,876	3,392,779	(1,234,074)		(1,234,074)
Business-type Activities:						
Jail Canteen Fund	63,150	66,494			3,344	3,344
Total Business-type Activities	63,150	66,494			3,344	3,344
Total Primary Government	5,125,879	502,370	3,392,779	(1,234,074)	3,344	(1,230,730)
General Revenues:						
Taxes:						
Real Property Taxes				464,203		464,203
Personal Property Tax				2,204		2,204
Motor Vehicle Tax				81,699		81,699
Others Taxes				649,492		649,492
Excess Fees				12,624		12,624
Licenses and Permits				12,097		12,097
Unrestricted Investment Earnings				51,234		51,234
Miscellaneous Revenue				161,885		161,885
Total General Revenues				1,435,438		1,435,438
Changes in Net Assets				201,364	3,344	204,708
Net Assets-Beginning (Restated)				2,916,023	4,137	2,920,160
Net Assets-Ending				\$ 3,117,387	\$ 7,481	\$ 3,124,868

The accompanying notes are an integral part of these financial statements.

LEWIS COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2006

LEWIS COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Public Properties Courthouse Corporation Fund	Community Development Block Grant Fund	Non-Major Government Fund	Total Governmental Funds
ASSETS							
Cash	<u>\$ 32,500</u>	<u>\$ 38,541</u>	<u>\$ 1,265</u>	<u>\$ 84,875</u>	<u>\$ 1</u>	<u>\$ 61,650</u>	<u>\$ 218,832</u>
FUND BALANCES							
Fund Balances:							
Reserved for:							
Encumbrances	\$ 4,296	\$ 48,345	\$ 4,972	\$	\$	\$	\$ 57,613
Unreserved:							
General Fund	28,204						28,204
Special Revenue Funds		(9,804)	(3,707)		1	61,650	48,140
Debt Service Fund				84,875			84,875
Total Fund Balances	<u>\$ 32,500</u>	<u>\$ 38,541</u>	<u>\$ 1,265</u>	<u>\$ 84,875</u>	<u>\$ 1</u>	<u>\$ 61,650</u>	<u>\$ 218,832</u>

**Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 218,832
Amounts Reported for Governmental Activities in the Statement of Net Assets	
Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial and Therefore Are Not Reported in the Funds	11,510,812
Accumulated Depreciation	(2,127,722)
Long-term debt is not due and payable in the current period and, therefore, is is not reported in the funds.	
Financing Obligations	(1,244,535)
Bond Debt	<u>(5,240,000)</u>
Net Assets of Governmental Activities	<u>\$ 3,117,387</u>

The accompanying notes are an integral part of these financial statements.

LEWIS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED BASIS

For The Year Ended June 30, 2006

LEWIS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For the Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund	Public Properties Courthouse Corporation Fund	Community Development Block Grant Fund	Non-Major Government Fund	Total Governmental Funds
REVENUES							
Taxes	\$ 1,197,598	\$	\$	\$	\$	\$	\$ 1,197,598
Excess Fees	12,624						12,624
Licenses and Permits	12,097						12,097
Intergovernmental Revenues	312,205	1,711,264	48,440	389,754	869,466	61,650	3,392,779
Charge for Services			435,876				435,876
Miscellaneous	67,555	53,425	40,905				161,885
Interest	7,261	5,084		38,889			51,234
Total Revenues	<u>1,609,340</u>	<u>1,769,773</u>	<u>525,221</u>	<u>428,643</u>	<u>869,466</u>	<u>61,650</u>	<u>5,264,093</u>
EXPENDITURES							
General Government	676,705						676,705
Protection to Persons and Property	35,411		707,351				742,762
General Health and Sanitation	161,099				869,465		1,030,564
Social Services	3,450						3,450
Recreation and Culture	9,710						9,710
Roads		1,603,822					1,603,822
Debt Service:							
Principal	98,500	28,560		180,000			307,060
Interest	70,112	1,507		227,463			299,082
Issuance Cost				66,000			66,000
Administration	380,907	137,245	110,074	4,116			632,342
Total Expenditures	<u>1,435,894</u>	<u>1,771,134</u>	<u>817,425</u>	<u>477,579</u>	<u>869,465</u>		<u>5,371,497</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>173,446</u>	<u>(1,361)</u>	<u>(292,204)</u>	<u>(48,936)</u>	<u>1</u>	<u>61,650</u>	<u>(107,404)</u>
Other Financing Sources (Uses)							
Proceeds From Sale of Bonds				5,420,000			5,420,000
Payments to Refunded Bond Escrow Agent				(5,798,982)			(5,798,982)
Transfers From Other Funds			291,000				291,000
Transfers to Other Funds	(291,000)						(291,000)
Total Other Financing Sources (Uses)	<u>(291,000)</u>		<u>291,000</u>	<u>(378,982)</u>			<u>(378,982)</u>
Net Change in Fund Balances	(117,554)	(1,361)	(1,204)	(427,918)	1	61,650	(486,386)
Fund Balances-Beginning	150,054	39,902	2,469	512,793			705,218
Fund Balances-Ending	<u>\$ 32,500</u>	<u>\$ 38,541</u>	<u>\$ 1,265</u>	<u>\$ 84,875</u>	<u>\$ 1</u>	<u>\$ 61,650</u>	<u>\$ 218,832</u>

The accompanying notes are an integral part of these financial statements.

**LEWIS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

LEWIS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For the Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (486,386)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	859,958
Depreciation Expense	(409,268)

The issuance of long-term debt provides current financial resources to governmental funds while financing obligation and bond principal payments are expensed in the governmental funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Bond Proceeds	(5,420,000)
Payment to Refunded Bond Escrow Agent	5,798,982
Financing Obligations Payments	127,060
Bond Payments	180,000
Loss on Refunding Bonds	(448,982)

Change in Net Assets of Governmental Activities	\$ <u>201,364</u>
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The accompanying notes are an integral part of these financial statements.

LEWIS COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

LEWIS COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

**Business-Type
Activities -
Enterprise
Fund**

Jail
Canteen
Fund

Assets

Current Assets:

Cash and Cash Equivalents	\$ 7,481
Total Current Assets	<u>7,481</u>
Total Assets	<u>7,481</u>

Net Assets

Unrestricted	7,481
Total Net Assets	<u><u>\$ 7,481</u></u>

The accompanying notes are an integral part of these financial statements.

LEWIS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LEWIS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenue	
Canteen Receipts	\$ 66,494
Total Operating Revenue	<u>66,494</u>
Operating Expenses	
Cost of Sales	(10,399)
Educational and Recreational	(46,386)
Salaries	(5,000)
Sales Tax	(1,365)
Total Operating Expenses	<u>(63,150)</u>
Operating Income (Loss)	<u>3,344</u>
Nonoperating Revenue (Expenses)	<u>0</u>
Net Income (Loss)	
Change In Net Assets	3,344
Total Net Assets- Beginning	4,137
Total Net Assets- Ending	<u><u>\$ 7,481</u></u>

The accompanying notes are an integral part of these financial statements.

LEWIS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

LEWIS COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND-MODIFIED CASH BASIS

For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 66,494
Claims Paid	<u>(63,150)</u>
Net Cash Used By Operating Activities	<u>3,344</u>
 Net Increase in (Decrease) in Cash and Cash Equivalents	 3,344
Cash and Cash Equivalents-July 1, 2005	<u>4,137</u>
 Cash and Cash Equivalents-June 30, 2006	 <u><u>\$ 7,481</u></u>

The accompanying notes are an integral part of these financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	21
NOTE 2.	DEPOSITS	26
NOTE 3.	FINANCING OBLIGATIONS.....	27
NOTE 4.	CAPITAL ASSETS	28
NOTE 5.	DEFEASANCE OF LONG-TERM DEBT.....	29
NOTE 6.	LONG-TERM DEBT	29
NOTE 7.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	31
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	31
NOTE 9.	PRIOR PERIOD ADJUSTMENTS.....	31

LEWIS COUNTY FISCAL COURT
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lewis County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the entity includes a organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Based upon the criteria stated in GASB 14, management has included the Lewis County Public Properties Courthouse Corporation as a blended component unit. The County has no discretely presented component units.

C. Lewis County Constitutional Elected Officials

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lewis County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lewis County, Kentucky.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Lewis County Constitutional Elected Officials (Continued)

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type activities come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County does not have fiduciary funds.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Majors funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor’s Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor’s Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of fund is to account for jail expenses of the county. The primary sources of revenues for this fund are reimbursements from the state and federal governments, other counties for housing prisoners and transfers from the General Fund. The Governor’s Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Courthouse Corporation Fund-The Public Properties Corporation Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the county. The Public Property Corporation issues debt to build major facilities or additions. The Lewis County Public Courthouse Corporation has entered into a lease/sublease agreement with the Commonwealth of Kentucky, administrative Office of the Courts (the “AOC”), in which the AOC wishes to use and sublease all or a portion of certain facilities owned or to be constructed by or on behalf of the County. This lease/sublease is subject to renewal each year. .

Community Development Block Grant Fund-This fund is used for the purpose of accounting for and passing thru to other entities Communities Development Block Grants.

The primary government also has the following non-major fund: Animal Shelter Fund.

Special Revenues Funds:

The Road Fund, Jail Fund, Community Development Block Grant Fund, and Animal Shelter Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Debt Service Fund:

The Public Properties Courthouse Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1, following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Fund

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and construction in progress is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	25,000	10-75
Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-5
Infrastructure	25,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund.

The State Local Finance Officer does not require the Jail Canteen fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a property executed collateral security agreement.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Financing Obligations

The county entered into two lease agreements with Kentucky Area Development District, one for Industrial site development and one for renovations on the Lewis County Detention Center. In addition, the county entered into an agreement with Kentucky Association of Counties for the purpose of purchasing road equipment. Debt service requirement the fiscal year ended June 30, 2007, and thereafter are as follows:

A. Tollesboro Industrial Site Development (Kentucky Area Development District):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 14,200	\$ 1,845
2008	14,900	1,131
2009	11,600	384
Total	<u>\$ 40,700</u>	<u>\$ 3,360</u>

B. Renovation of the Lewis County Detention Center (Kentucky Area Development District):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 65,000	\$ 61,875
2008	70,000	58,457
2009	70,000	54,913
2010	75,000	51,165
2011	80,000	47,060
2012-2016	470,000	164,260
2017-2019	350,000	29,855
Total	<u>\$ 1,180,000</u>	<u>\$ 467,585</u>

C. Purchase of Road Equipment (Kentucky Association of Counties):

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 23,835</u>	<u>\$ 524</u>

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 412,900	\$	\$	\$ 412,900
Total Capital Assets Not Being Depreciated	412,900			412,900
Capital Assets Being Depreciated:				
Buildings	8,035,157			8,035,157
Furniture and Office Equipment	23,024	2,649		25,673
Vehicles and Equipment	1,185,099	196,994		1,382,093
Infrastructure	994,674	660,315		1,654,989
Capital Assets Being Depreciated	10,237,954	859,958		11,097,912
Less Accumulated Depreciation For:				
Building	(1,094,521)	(190,743)		(1,285,264)
Furniture and Office Equipment	(10,267)	(5,635)		(15,902)
Vehicles and Equipment	(527,373)	(106,685)		(634,058)
Infrastructure	(86,293)	(106,205)		(192,498)
Total Accumulated Depreciation	(1,718,454)	(409,268)		(2,127,722)
Total Capital Assets Being Depreciated, Net	8,519,500	450,690		8,970,190
Government Activities Capital Assets, Net	\$ 8,932,400	\$ 450,690	\$	\$ 9,383,090

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 159,673
Protection to Persons and Property	64,548
General Health and Sanitation	3,483
Roads, Including Depreciation of General Infrastructure Assets	181,564

Total Depreciation Expense – Governmental Activities	<u>\$ 409,268</u>
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LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Defeasance of Long-Term Debt

The Lewis County Public Property Corporation issued \$5,420,000 of First Mortgage Revenue Refunding Bonds (Court Facilities Project), Series 2005 dated November 1, 2005. The purpose of this issue was to refund a 2000 revenue bond issue. The net proceed of this issue, after issuance cost, was \$5,354,000. The net proceeds plus an additional \$344,982 was placed in an escrow account to advance refund the 2000 Revenue Bond issue.

Note 6. Long-Term Debt

A. Revenue Bonds

In November 2005 the Lewis County Public Properties Corporation issued \$5,420,000 in First Mortgage Revenue Refunding Bonds for the purpose of defeasing the 2000 First Mortgage Revenue Bond Issue. The Lewis County Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for AOC at the Justice Center.

Lewis County and the Public Properties Corporation are acted as agents for the AOC in order to plan, design, and construct the Justice Center. They are now acting as agents for the AOC in managing and maintaining the Justice Center. The Public Properties Corporation and the county expect annual rentals for the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided by in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service requirements for the bonds.

The use allowance payment commenced with the occupancy of the Justice Center by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 2026, but the lease does not obligate the AOC to do so.

These bonds are schedule to mature in March 2026; interest payments are due every six month starting March 2006, and interest payments are due annually beginning March 2006. At June 30, 2006, the principal balance outstanding on these bonds was \$5,240,000. Debt service requirements for the fiscal year ended June 30, 2007, and thereafter are as follows:

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 6. Long-Term Debt (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Interest	Principal
2007	\$ 206,980	\$ 180,000
2008	199,870	185,000
2009	192,562	190,000
2010	185,057	200,000
2011	177,157	210,000
2012 - 2016	755,436	1,170,000
2017 - 2021	505,401	1,420,000
2022 - 2026	201,646	1,685,000
	<u>\$ 2,424,109</u>	<u>\$ 5,240,000</u>

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	(a) Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Revenue Bonds- 2000 Bond Issue	\$ 5,350,000	\$	\$ 5,350,000	\$	\$
First Mortgage Revenue Refunding Bond- (Court Facilities Project), Series 2005		5,420,000	180,000	5,240,000	180,000
Financing Obligations (b) (Note 3)	<u>1,371,595</u>		<u>127,060</u>	<u>1,244,535</u>	<u>103,035</u>
Governmental Activities Long-term liabilities	<u>\$ 6,721,595</u>	<u>\$ 5,420,000</u>	<u>\$ 5,657,060</u>	<u>\$ 6,484,535</u>	<u>\$ 283,035</u>

(a) The \$5,350,000 of reductions for Revenue Bonds-Series 2000 was the result of a refunding bond issue, thus this amount is not reflected in the financial statements as bond principal payments. This reduction is included in the financial statements under other financing uses as payments to refunded bond escrow agent.

(b) Restatement due to overstatement of June 30, 2005 liabilities.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Interest On Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$ 71,619 of interest on financing obligations and \$742,445 of interest and issuance cost on bond issues.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspect of benefits for non-hazardous employees includes retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Prior Period Adjustments

The beginning net assets of governmental activities on the Statement of Activities have been restated by \$1,922. The beginning fund balance of the general fund, road fund, and jail fund were restated by \$409, \$30, and \$32, respectfully, due to voided checks and the overstatement of prior year liabilities by \$1,451.

LEWIS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

LEWIS COUNTY
BUDGETEARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis

For The Year Ended June 30, 2006

GENERAL FUND				
Budgeted Amounts			Actual Amount, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Original	Final			
REVENUES				
Taxes	\$ 1,087,000	\$ 1,087,000	\$ 1,197,598	\$ 110,598
Excess Fees	19,000	19,000	12,624	(6,376)
Licenses and Permits	6,000	6,000	12,097	6,097
Intergovernmental Revenues	1,233,694	1,233,694	312,205	(921,489)
Charges for Services	600	600		(600)
Miscellaneous	53,500	53,500	67,555	14,055
Interest	5,400	5,400	7,261	1,861
Total Revenues	2,405,194	2,405,194	1,609,340	(795,854)
EXPENDITURES				
General Government	618,755	711,145	676,705	34,440
Protection to Persons and Property	37,212	38,903	35,411	3,492
General Health and Sanitation	968,900	870,001	161,099	708,902
Social Services	3,000	4,450	3,450	1,000
Recreation and Culture	155,500	12,192	9,710	2,482
Debt Service:				
Principal	1,393,500	1,394,500	98,500	1,296,000
Interest	75,000	75,000	70,112	4,888
Administration	377,827	403,503	380,907	22,596
Total Expenditures	3,629,694	3,509,694	1,435,894	2,073,800
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,224,500)	(1,104,500)	173,446	1,277,946
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	70,000			
Transfers To Other Funds	(241,000)	(241,000)	(291,000)	(50,000)
Kentucky Advanced Revenue Program	1,295,500	1,295,000		(1,295,000)
Total Other Financing Sources and (Uses)	1,124,500	1,054,000	(291,000)	(1,345,000)
Net Changes in Fund Balances	(100,000)	(50,500)	(117,554)	(67,054)
Fund Balance-Beginning	100,000	200,000	150,054	(49,946)
Funding Balance-Ending	\$	\$ 149,500	\$ 32,500	\$ (117,000)

LEWIS COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS

Required Supplemental Information

Modified Cash Basis

For The Year Ended June 30, 2006 (Continued)

	ROAD FUND			
			Actual	Variance with
	Budgeted Amounts		Amounts	Final Budget
	Original	Final	(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental	\$ 2,499,486	\$ 2,499,486	\$ 1,711,264	\$ (788,222)
Miscellaneous	1,000	1,000	53,425	52,425
Interest	1,500	1,500	5,084	3,584
Total Revenues	2,501,986	2,501,986	1,769,773	(732,213)
EXPENDITURES				
Roads	2,320,520	2,303,745	1,603,822	699,923
Debt Service:				
Principal	30,000	30,000	28,560	1,440
Interest	2,000	2,000	1,507	493
Administration	179,466	196,241	137,245	58,996
Total Expenditures	2,531,986	2,531,986	1,771,134	760,852
Excess (Deficiency) of Revenues				
Over Expenditures Before Other				
Financing Sources (Uses)	(30,000)	(30,000)	(1,361)	28,639
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(70,000)	(70,000)		
Total Other Financing Sources (Uses)	(70,000)	(70,000)		
Net Changes in Fund Balances	(100,000)	(675,932)	(1,361)	674,571
Fund Balances Beginning	100,000	350,000	39,902	(310,098)
Fund Balances-Ending	\$	\$ (325,932)	\$ 38,541	\$ 364,473

LEWIS COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2006 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 45,461	\$ 45,461	\$ 48,440	\$ 2,979
Charges for Services	415,000	415,000	435,876	20,876
Miscellaneous	11,000	11,000	40,905	29,905
Total Revenues	471,461	471,461	525,221	53,760
EXPENDITURES				
Protection to Person and Property	596,694	596,694	707,351	(110,657)
Administration	115,767	115,767	110,074	5,693
Total Expenditures	712,461	712,461	817,425	(104,964)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(241,000)	(241,000)	(292,204)	(51,204)
OTHER FINANCING SOURCES (USES)				
Transfers In	241,000	241,000	291,000	50,000
Net Changes in Fund Balances			(1,204)	(1,204)
Fund Balances-Beginning			2,469	2,469
Fund Balance-Ending	\$	\$	\$ 1,265	\$ 1,265

LEWIS COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information
Modified Cash Basis
For The Year Ended June 30, 2006 (Continued)

Community Development Block Grant Fund				
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts,	(Budgetary	Final Budget
		Basis)	Positive	(Negative)
REVENUES				
Intergovernmental	1,250,000	1,250,000	869,466	(380,534)
Total Revenues	1,250,000	1,250,000	869,466	(380,534)
EXPENDITURES				
General Health and Sanitation	1,250,000	1,250,000	869,465	380,535
Total Expenditures	1,250,000	1,250,000	869,465	380,535
Excess (Deficiency) of Revenues				
Over Expenditures Before Other				
Financing Sources (Uses)			1	1
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds				
Total Other Financing Sources (Uses)				
Net Changes in Fund Balances			1	1
Fund Balances Beginning				
Fund Balances-Ending	\$	\$	\$ 1	\$ 1

**LEWIS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**LEWIS COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

LEWIS COUNTY
COMBINING BALANCE SHEET-
NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2006

	Animal Shelter Fund	Total Non-Major Governmental Fund
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 61,650	\$ 61,650
	<u> </u>	<u> </u>
Total Assets	<u>61,650</u>	<u>61,650</u>
FUND BALANCES		
Unreserved:		
Special Revenue Fund	<u>61,650</u>	<u>61,650</u>
Total Fund Balance	<u>\$ 61,650</u>	<u>\$ 61,650</u>

LEWIS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

LEWIS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Animal Shelter Fund	Total Non-Major Governmental Fund
REVENUES		
Intergovernmental	\$ 61,650	\$ 61,650
Total Revenue	<u>61,650</u>	<u>61,650</u>
EXPENDITURES		
Excess (Deficiency) of Revenue Over Expenditures Before Transfers and Financing Sources (Uses)	<u>61,650</u>	<u>61,650</u>
Net Change in Fund Balances	<u>61,650</u>	<u>61,650</u>
Fund Balances-Beginning		
Fund Balances-Ending	<u><u>\$ 61,650</u></u>	<u><u>\$ 61,650</u></u>

**LEWIS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2006

**LEWIS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lewis County.
2. No reportable conditions relating to the audit of the financial statement are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Lewis County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Lewis County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs of Lewis County reported in Part C of this schedule.
7. The programs tested as a major programs were: Community Development Block Grant – Lewis County Health Department Building, CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000
9. Lewis County was not determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

The Fiscal Court Should Direct The Sheriff To Invest Funds In An Interest-Bearing Account

The County's failure to deposit money into interest-bearing accounts is a management decision that results in a substantial loss for the County. KRS 66.480 states "that the county officials . . . at the direction of the fiscal court shall, invest and reinvest money subject to their control and jurisdiction." We recommend that money be deposited into interest-bearing accounts in order to take full advantage of this revenue opportunity.

County Judge/Executive's Response: I was aware of this problem, I approached the Magistrates concerning correcting the problem, they, as a whole, refused to take action to correct.

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

LEWIS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

LEWIS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

	<u>Federal CFDA No.</u>	<u>Expenditures</u>	
U.S Department of Housing and Urban Development			
<i>Passed through from Governor's Office for Local Development:</i>			
<i>Provided to Subrecipient: Lewis Co Health Dept (Note B)</i>			
Community Development Block Grant (Lewis Co Health Dept Bldg)	14.228	<u>\$ 869,465</u>	**
TOTAL FEDERAL EXPENDITURES		<u><u>\$ 869,465</u></u>	

*Tested as a major program ***

LEWIS COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of the Lewis County Fiscal Court and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

NOTE B – SUBRECIPIENTS

The Lewis County Fiscal Court provided Federal awards to subrecipients as follows:

Lewis County Health Department	<u>CFDA #</u>	<u>Amount</u>
Community Development Block Grant	14.228	\$ 869,465

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
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Facsimile (502) 499-9132
www.rossepas.com

The Honorable Steve Applegate, Lewis County Judge/Executive
Members of the Lewis County Fiscal Court

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lewis County, Kentucky as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 28, 2006. Lewis County's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lewis County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lewis County's financial statements as of June 30, 2006, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Direct The Sheriff To Invest Funds In An Interest-Bearing Account

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office of Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed-
July 28, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Honorable Steve Applegate, Lewis County Judge/Executive
Members of the Lewis County Fiscal Court

Report On Compliance With Requirements Applicable
To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Lewis County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Lewis County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lewis County's management. Our responsibility is to express an opinion on Lewis County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lewis County's compliance with those requirements.

In our opinion Lewis County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Lewis County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lewis County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

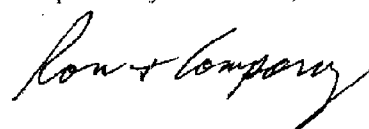
Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting, which we have reported to management of the Lewis County in a separate letter dated July 28, 2006.

This report is intended for the information of management, federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed-
July 28, 2006

